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FM AMEMBASSY BERLIN  
TO RUEHC/SECSTATE WASHDC PRIORITY 3775  
RUEHBS/USEU BRUSSELS PRIORITY  
RUCNFRG/FRG COLLECTIVE  
RUEHZN/ENVIRONMENT SCIENCE AND TECHNOLOGY COLLECTIVE

UNCLAS SECTION 01 OF 05 BERLIN 000407

SENSITIVE

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BRUSSELS FOR DOLLINGER

E.O. 12958: N/A

TAGS: [OVIP](#) [ECON](#) [SENV](#) [ENRG](#) [TRGY](#) [PREL](#) [GM](#) [KGHG](#)

SUBJECT: Scenesetter for CODEL Bingaman

¶1. (U) SUMMARY: Senator Bingaman, Mission Germany warmly welcomes your visit and looks forward to supporting a mix of productive meetings. You will find your German interlocutors to be understanding of the broad challenges the US is facing simultaneously; they await robust US engagement on climate and energy issues and will be eager to share lessons learned and best practices for developing US climate and energy policy.

¶2. (SBU) Germany is the largest greenhouse gas emitter in Europe and has taken on ambitious abatement targets domestically and through the EU. Aggressive domestic policies on energy efficiency and renewable energy sources have placed Germany on a path to meet its goals, but this undertaking faces serious threats from Germany's commitment to phase-out nuclear power and heavy resistance from German industry. Once a bastion of environmental concern in Europe, Germany is reeling from the economic crisis and upcoming elections may limit the resolve of Chancellor Merkel to push for deeper domestic emissions cuts.

¶3. (SBU) Germany's energy policy is similarly entangled. The future of nuclear power is an uncertain and contentious issue. Germany is rich with deposits of brown coal, but despite support from the Economics and Environment Ministries, large-scale demonstration projects in clean coal and carbon capture and sequestration (CCS) technologies have been prevented by high costs and environmental activism. Germany also relies on imported natural gas from Russia, but recent threatened shut offs, resulting from the inability to pay of pipeline countries between Russia and Germany, have renewed public concerns about Germany's energy security. END SUMMARY.

German Government in an Election Year

¶4. (SBU) Since 2005, the German Federal government has been held by a "Grand Coalition" of the traditionally opposed Christian Democrat (CDU/CSU) and Social Democrat (SPD) Parties. As part of the coalition agreement, control of the various ministries is divided among the two parties, and each minister has a great deal of autonomy in determining its policy regardless of what the Chancellor might prefer. Chancellor Merkel and Economics Minister zu Guttenberg are CDU/CSU members and Foreign Minister Steinmeier and Environment Minister Gabriel are Social Democrats. Parliamentary elections, which will determine control of the Federal government, are scheduled for September of this year, preceded by elections for the European Parliament and several key Laender (states) this summer. The CDU/CSU and SPD would each prefer more like-minded coalition partners from some combination of the three major opposition parties: the Free Democrats (FDP), the Greens, and the Left. But they must also deal with the reality that a Grand Coalition may once again be the only workable outcome. Chancellor Merkel and Foreign Minister Steinmeier will be the leading candidates for their respective parties in the election, resulting in a situation where separate elements of the same government are

campaigning against one another while simultaneously trying to govern as a coalition. Given this, care must be taken to differentiate what is official policy of the Federal Government, and what is political posturing.

#### German Emissions and Trends

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15. (U) The most recent official data available indicates that German CO2 emissions in 2006 were 18 percent below 1990 levels, and in 2007 were 22 percent below 1990 levels. The unseasonably warm 2006-2007 winter and subsequent decline in energy demand for heating likely accounted for some of the 4 percent decrease. Preliminary reports from Germany's Federal Environment Protection Agency indicate that the country's overall emissions declined 1.2 percent in 2008 even as energy consumption increased by 1 percent. This places German emissions in 2008, at 23.3 percent below 1990 levels. This week, the Environment Ministry announced that Germany had officially met its reduction target of 21 percent below 1990 levels for the 2008-2012 phase of the Kyoto Protocol.

16. (U) Under the Kyoto Protocol, the EU-15 has committed to a collective emissions reduction target of 8 percent below 1990 levels by 2020. If the EU-15 is to meet this goal, Germany's ambitious emissions cuts will be instrumental in offsetting emissions from countries like Austria, Greece, Italy, and Spain, which have seen emissions increases since the 1990 base year and are not expected to meet their individual Kyoto targets. Other EU-15 and EU-25 countries like Bulgaria, the Czech Republic, Estonia, and Slovenia, are projected to make deeper emissions cuts (in percentage terms) than Germany by 2010, but the scale of Germany's economy and emissions make its projected cuts the largest in absolute terms by a wide margin.

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#### International and Domestic Emissions Commitments

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17. (U) Germany is a party to the EU 20/20/20 emissions reduction plan, in which the European Union has committed to reducing its collective emissions to 20 percent below 1990 levels, increasing the share of renewable energies in its energy generation portfolio to 20 percent, and a 20 percent reduction in energy demand by the year 2020. The plan also contains a provision that would increase the EU's emissions reduction target to 30 percent below 1990 levels if other major economies undertake similarly ambitious goals.

18. (U) After the EU 20/20/20 plan's passage, Germany indicated that to help the EU meet its aggregate reduction goals, it would agree to a binding 30 percent reduction goal by 2020. Germany's commitment also contains a provision that will increase its target to 40 percent below 1990 levels if the EU moves to its 30 percent reduction goal. While their official EU target is a 30 percent reduction, the German Government domestically refers to the 40 percent reduction goal.

#### Domestic Policy and Meseberg

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19. (U) The main instrument of German Climate Policy is the "Integrated Energy and Climate Program," which was agreed to by the German government in 2007, and is referred to as the "Meseberg Package." The Meseberg Package consists of twenty-nine key elements, including: a mandate for increased combined heat and power (CHP) generation, mandates for an increased renewable share in heat and electricity generation, incentives for solar and wind energy producers, and mandates for stricter building codes and increased energy efficiency. Analysts predict that implementation of the Meseberg package will result in an emissions reduction to 34 percent below 1990 levels by 2020. Germany is still addressing methods to make up the 6 percent gap between the results of Meseberg implementation and the 40 percent reduction required to meet its domestic and possible EU goal.

## The "Climate Chancellor"

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¶10. (U) At the beginning of her term, Chancellor Merkel, a former Environment Minister herself, was hailed in the media as the "Climate Chancellor" for her efforts to elevate awareness of environmental concerns, especially climate change. In 2007, Germany and Merkel held the rotating presidencies of both the G8 and EU, where she made combating climate change a top priority. A particularly notable success came at the Heiligendamm G8 summit, where Chancellor Merkel was able to secure a commitment from the G8 members, including the Bush Administration, to seriously consider taking action to halve global emissions by 2050.

¶11. (SBU) The economic crisis, however, has brought a noticeable change in Merkel's commitment and attitude on these subjects. The worldwide downturn has hit Germany, the world's largest exporter, hard, particularly in the manufacturing sector, and a large portion of Merkel's conservative electoral base consists of employees and supporters of industry, especially in Bavaria and the German south. Though she still holds a lead in the polls heading toward September's Parliamentary elections, Merkel is under intense political pressure from her electoral base to protect German jobs. Germany is in its worst recession since World War II, and in the past year orders for industrial and investment goods have fallen by 37.9 percent and 41.8 percent, respectively. Though the German government officially predicts a 2.25 percent GDP contraction for 2009, prominent economists are now predicting a GDP decline between 5 percent and 7 percent. The unemployment rate for March was 8.1 percent, but government-funded short working hour programs ("Kurzarbeit") keep many workers employed who would otherwise be laid off, and so this figure is artificially low. Uncertainty over the future of GM-owned Opel and the recent announcement of 3,000 job cuts by Thyssen-Krupp, Germany's largest steel producer, are not increasing confidence. Faced with Germany's dire economic situation, Chancellor Merkel will likely be constrained in her ability to take further action on GHG mitigation.

¶12. (SBU) Indicative of this pressure and the resulting change in Merkel's position is a statement made by Merkel in the wake of the Brussels EU summit that she would not approve an EU climate package or rules that would "endanger German jobs or investment." Chancellor Merkel is under particular pressure from German heavy industry concerned about carbon leakage and the resulting job losses, especially in the auto, steel, chemical, aluminum, and cement industries. Last December, Chancellor Merkel and the

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Economics Ministry lobbied the EU Commission to exempt German heavy industry from the planned auction of carbon permits in the EU Emissions Trading Scheme (ETS). The Commission agreed in principle, but will not make a final decision until 2010. Chancellor Merkel also expressed deep opposition to EU legislation seeking to tax emissions from large cars, which would hurt the luxury sedans produced by German automakers. The Association for Energy-Intensive Industries (VIK), has made a particularly heavy effort to lobby German policymakers, and in concert with 14 similar federations from other member states, the EU. VIK has recently presented analysis of the lessons learned from the EU ETS that argues against auctioning and allocation based on historic production. They maintain that "dynamic benchmarking" using actual production reduces opportunity costs, eliminates windfall profits, and guarantees a total cap.

## The Environment Ministry

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¶13. (U) As part of the Grand Coalition agreement, the Social Democrats control the Environment Ministry. Environment Minister Sigmar Gabriel is a strong supporter of global efforts to combat climate change and an outspoken critic of plans by Merkel and CDU/CSU to reconsider Germany's nuclear power policies. Instead, Gabriel and the Ministry support continued emissions reduction through drastic increases in energy efficiency and renewable energy output, especially from solar and wind sources. Matthias Machnig, also of the SPD, is the Ministry's State Secretary and Germany's chief negotiator in international climate fora. Machnig, on behalf

of the Ministry, has been a strong advocate of emissions trading regimes and has continually supported OECD- and worldwide linked markets to reduce the cost of emissions abatement.

#### Economics Ministry and Energy Policy

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¶14. (SBU) The Economics Ministry is headed by CSU Minister Karl Theodor zu Guttenberg, a young and charismatic politician recently crowned as a rising star by the German media. The Economics Ministry is responsible for energy policy, but despite a series of high level meetings chaired by Chancellor Merkel, Germany has been unable to formulate a national energy policy, largely due to deep divisions between environment and industry interests. The Chancellor and the Economics Ministry support extending nuclear power plant operations against the nuclear moratorium policy; they argue that Germany is unlikely to achieve its emissions reductions goals without nuclear power. Germany's only major domestic fuel source is coal, and the Economics Ministry supports the development and use of coal and carbon capture and sequestration (CCS) for energy security reasons. The Social Democrat-controlled Environment Ministry, a strong opponent of nuclear power, also supports clean coal and CCS technologies. Despite the rare concurrence of the Economics and Environment Ministries on coal issues, local grassroots environmental activism has stopped most coal projects. Germany also depends on Russian natural gas imports, and wary of relying too heavily on Russian supplies, the Ministry advocates diversification of suppliers and supply routes. The Economics Ministry also supports increased renewable energy use and energy efficiency standards, but conflicts with the Environment Ministry when costs from the feed-in tariff program and environmental taxes are passed on to consumers.

#### EU ETS

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¶15. (U) Germany is a part of the EU Emissions Trading Scheme (ETS), which covers its glass, chemical, paper, steel, and cement manufacturing industries, as well as conventional power generation and most medium- and large- scale industrial ventures. Notably absent from ETS participation are emissions from the transportation sector, and from households and buildings. Approximately half of Germany's total emissions are covered by the ETS. Governments are now allowed to auction up to 10 percent of their allotted permits, but under pressure from industry in December, Chancellor Merkel and the Economics Ministry lobbied to exempt German industry from purchasing the permits at auction. The German Emissions Trading Authority (DEHSt) released data April 1, 2009 showing that German emissions under the Trading Scheme fell 3.0 percent, to 487 million metric tons, in 2008. Under the National Action Plan (NAP) for the second phase of the EU ETS, Germany's 1,659 covered installations were allotted a total of 389 million allowances, leaving a deficit of 89 million allowances to be covered by borrowing or open market purchase.

#### Renewable Energy

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¶16. (U) In 2008, 9.6 percent of Germany's total power consumption

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was generated by renewable sources. Renewable sources provided 15.3 percent of Germany's electricity and 7.3 percent of Germany's heat generation. Environment Ministry data from 2007 indicates that wind power provides the largest share of renewable electricity generation (45 percent), followed by hydroelectric (24 percent) and biomass (22 percent). Photovoltaic solar power installations provide 4 percent of Germany's renewable electricity. The vast majority of renewable heat generation comes from solid or liquid biomass (93 percent), with solar thermal and near-surface geothermal accounting for 4.1 percent and 2.4 percent of renewable heat generation, respectively.

#### Domestic and International Commitments to Renewable Energy

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¶17. (SBU) To support the EU's aggregate commitment to 20 percent of final power consumption from renewable sources by 2020, Germany has committed to generating 18 percent of its total power consumption from renewable sources. Domestically, through the Meseberg package, Germany has committed to increase the share of renewables electricity generation to 25-30 percent by 2020 and to increase the share of renewable energy for home heating use to 14 percent by ¶2020. Germany was also the prime mover in founding the International Renewable Energy Agency (IRENA) this January. The purpose of IRENA is to promote renewable energy sources and facilitate technology transfer to developing countries.

#### Renewable Energy Sources Act and Feed-in Tariff

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¶18. (U) The main market driver for renewable energy development in Germany is the amended Renewable Energy Sources Act ("Erneuerbare Energien Gesetz" - EEG). The act was passed April 1, 2000, and provides fixed feed-in tariffs for renewable energy sources until ¶2020. It is a guaranteed tariff, differentiated across technologies and scales in order to encourage research and development in promising, but relatively high cost renewable energy sources like photovoltaics, instead of investment in only the cheapest renewable sources like wind energy. To create an incentive for early actors and prevent late adopters from reaping windfall profits, the guaranteed tariff rate falls each year by a pre-determined, technology-specific depreciation rate, but is locked in once grid access is established. In 2004, the act was amended to provide preferential grid access to power generated from renewable sources, so in the event of excess supply, utilities must purchase energy from renewable sources first and decrease output at conventional production sites.

#### The Nuclear Question

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¶19. (SBU) Commitments to reduce the supply of nuclear power, which currently provides about 20 percent of Germany's power generation, present an additional complicating factor in the German quest for emissions reduction. The previous SPD/Green Party Schroeder-led coalition government passed legislation, known as the "nuclear moratorium," to phase-out all of Germany's nuclear power plants by ¶2020. Chancellor Merkel and her conservative party (CDU/CSU), the senior member of the current coalition government, agreed to maintain the nuclear moratorium as part of the coalition agreement, but have expressed the desire to completely reverse the policy. The junior coalition party, the SPD, is vehemently opposed to any plans to extend nuclear power in Germany and have openly criticized Merkel's attempts to extend the life of nuclear power plants.

¶20. (SBU) Fears about reactor safety, terrorism, and waste disposal combine with a strong environmental tradition and memories of the Chernobyl disaster to make nuclear power an enduring and sensitive issue for the German public. The long-standing general aversion to nuclear power among Germans has, however, waned in recent years. The results of a biannual survey by the Environment Ministry show that in December 2006, 65 percent of Germans wanted the nuclear phase-out to proceed on schedule or faster, while 27 percent opposed the phase-out entirely or favored extending the life of existing nuclear facilities. In December 2008, the same survey reported a slightly pro-nuclear shift: 57 percent of Germans favored accelerating or maintaining the phase-out and 32 percent favored extending plant life or abandoning the moratorium policy in its entirety. Rising oil and consumer energy prices, along with energy security concerns - most recently the January 2009 Russian-Ukrainian Gas crisis - have triggered a public reconsideration of nuclear power. An informal poll conducted on the Environment Ministry's website last month indicated that 57 percent of Germans opposed the nuclear phase-out entirely, while only 28 percent supported the policy. The staunchly anti-nuclear, Social Democrat-controlled Ministry removed the poll within a week.